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free

# insider

rochester remixed



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The Rochester *Democrat and Chronicle*  
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Credit  
Abuse  
Resistance  
Education  
(CARE)  
Program

# What do you spend money on?



House Resistance Education  
Program

Are the items you buy  
things you **need**  
or  
things you **want**?

# How do you pay for what you want?





# For “Big Ticket” Items

Unless you’ve saved  
lots of **cash**...



...you’ll probably use a  
**credit card**.

# True or False?

1. You must be 18 or older to obtain a credit card in your own name.

# TRUE

1. Before you become 18, you may obtain a credit card in which an adult is the authorized user.

Once you're 18, you can legally incur debt in your own name.



## True or False?

2. All credit card companies charge the same annual percentage rate (APR) of interest on the balance you owe.

**19.5%**

**23% APR**

**FALSE**

2. Different banks charge different rates.

Also, other important terms vary  
(*e.g.*, annual fees, late fees, grace  
periods)

## True or False?

3. If you pay your credit card balance on time and in full each month, it doesn't matter what rate the bank charges on your credit card.

# TRUE

3. Because you pay interest on the **unpaid** amount each month, you never pay any interest charge **if** you pay the entire amount due each month.

*Banks hate it when you do this!*

## True or False?

4. You pay no interest on a debit card purchase.

# TRUE

4. A debit card works like a check.  
Money is instantly deducted from your  
checking account.



Your ATM card  
probably serves a  
debit card.

# True or False?

5. Everyone over age 18 has a credit report.



**False**

5. Credit reports exist only for people who have established a credit history.

Having ***no*** credit history can have adverse consequences.

## True or False?

6. If you are late in making a few credit card payments, the interest rate you pay may increase sharply.

# TRUE

6. For example on one user's credit card, the rate jumped from  
**4.9%** to **24%**  
when one payment was late!  
(Late charges also can accrue.)

# True or False?

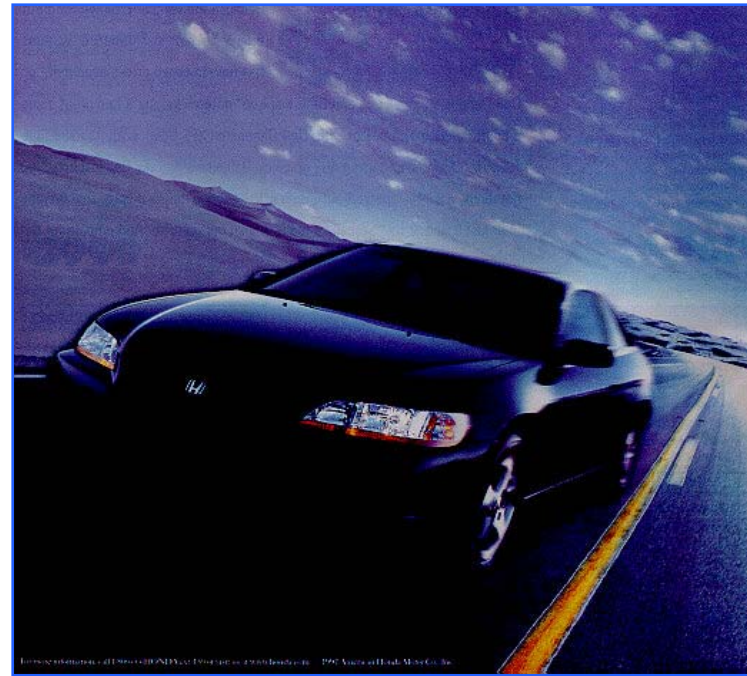
7. Missing just one or two credit card payments won't hurt your credit rating.

# FALSE

7. Missing a payment is noted on your credit report. Negative information such as this can legally remain on your credit report for up to 7 years.

# True or False?

8. If you apply for an auto loan, the lender will probably review your credit report.



# TRUE

8. Lenders almost always will review your credit report.

Credit-  
reporting  
agencies

**EQUIFAX**

*Equifax*



TransUnion.

**TransUnion**

**experian**

*Experian*

Visit

[AnnualCreditReport.com](https://AnnualCreditReport.com) for a free copy of your credit report.



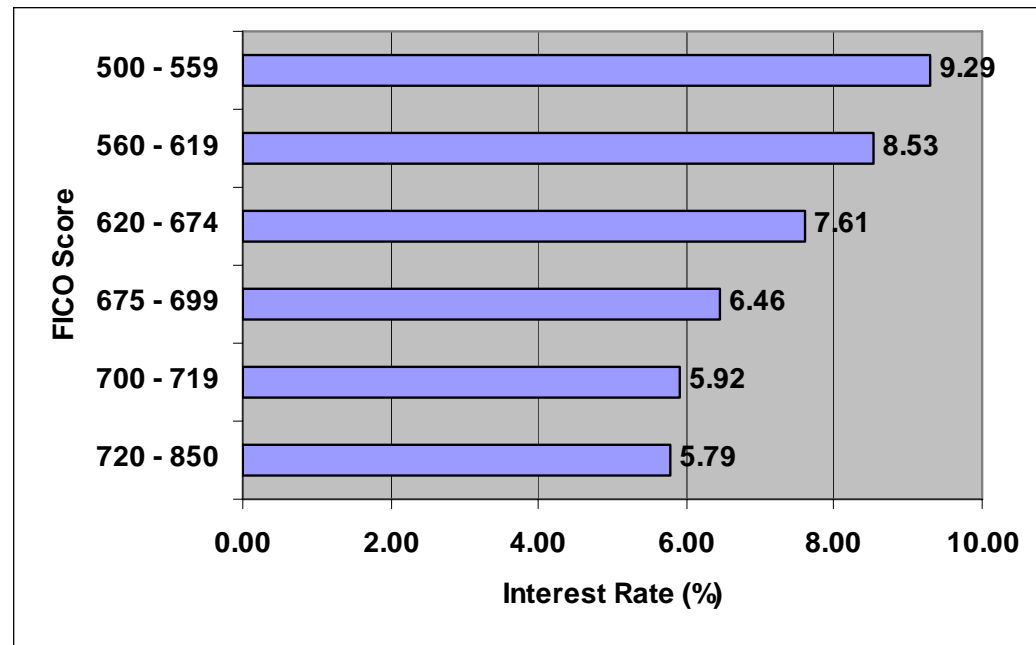
# FICO Credit Scores

- A score determined by your past use of credit, as recorded by the three credit-reporting agencies
- A 3-digit number between 300 & 850
- Created by **F**air **I**saac **C**orporation

You have **three** FICO scores, one from each credit-reporting agency.

# FICO Credit Scores (continued)

- Used by lenders to determine your interest rate
- Lower FICO score = **higher** interest
- Scores >700 = **lower** interest



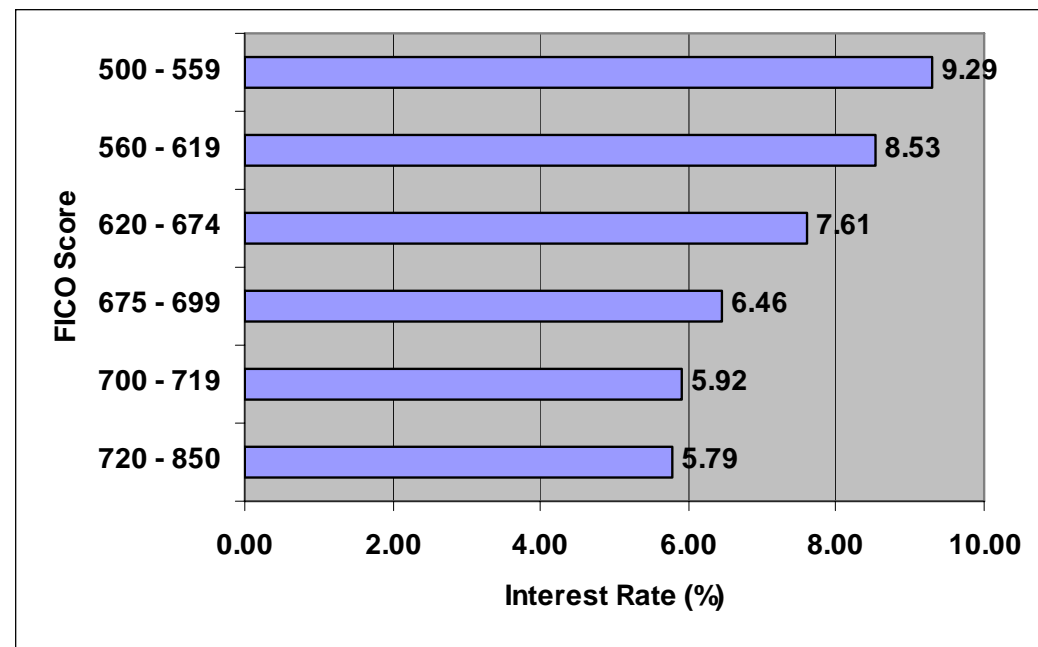
Average interest rate for a \$200,000 30-year, fixed-rate mortgage on August 5, 2005, based on credit scores nationwide

Source: *Parade Magazine*, October 2, 2005

# FICO Credit Scores (continued)

The cost difference between the **highest** and **lowest** credit scores for the \$200,000 loan:

- \$478 per month
- \$5,736 per year
- \$172,221 for the entire 30-year loan



Average interest rate for a \$200,000 30-year, fixed-rate mortgage on August 5, 2005, based on credit scores nationwide

Source: *Parade Magazine*, October 2, 2005

# FICO Credit Scores (continued)

- Also used by lenders to decide:
  - Whether to approve your credit application
  - Whether to increase your credit limit
  - How to treat you if you make a very late payment

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FICO scores are **not** part of your credit report.  
Obtain your scores; visit [www.myfico.com](http://www.myfico.com)

# True or False?

9. When you apply for a job, your prospective employer may review your credit report.



# TRUE

9. A prospective employer  
can review your credit report  
if you give written authorization.

*More and more employers  
are checking credit reports  
of potential employees.*

# True or False?

10. Bouncing just one check won't cause you to have credit problems.



# FALSE

10. If you bounce a check, your bank may put your name in Chex Systems<sup>SM</sup>.

You could be “blacklisted” for up to five years. This might mean you may not be able to use a checking account.

# Multiple Choice

11. The average college undergraduate owes credit card debt of:

- (a) \$500
- (b) \$1,500
- (c) \$3,000
- (d) \$5,000

# Answer: C

The *average* college student  
owes about  
**\$3,000**  
in credit card debt.

# Tips: Establishing Credit

- Establish good credit by
  - Using a checking account or a debit card
  - Paying bills in full and on time
- Take out a small loan and repay it in a timely manner to establish a good credit record
  - Use a parent as co-signer

## Tips: Determine if Credit is for You

Before you make a purchase using credit, determine:

- How much the purchase will really cost you
- Whether you can actually afford the purchase
- If it is better to wait and pay in cash

# Tips: Obtaining a Card

- Get only one credit card



- Resist opening a new credit card account for the enticing “free gifts”



**Credit card  
solicitations on the  
Notre Dame  
University campus**



# Tips: Obtaining a Card (continued)

- “Shop” for a credit card with the best terms that suit you
  - Read and understand the terms in the disclosure
  - Pay close attention to various late fees and penalties
- **ANNUAL MEMBERSHIP FEE:** Refer to your statement in the month in which the fee is billed.
- **RENEWING YOUR ACCOUNT:** You may have your annual membership fee credited to your account if you close your account within 30 days from the mailing or delivery date of the statement containing the fee, even if you use your card during that period. You may call the Customer Service number or write to the Customer Service address on your statement during this 30 day period and your account will be terminated; we will credit your account for the amount of the annual fee.
- **ANNUAL PERCENTAGE RATE:** Refer to the Rate Summary section of this statement. Your periodic rates and APRs may vary.
- **RATE AND ACCOUNT SUMMARIES:** The purchase and advance features of this account may be listed in the Rate Summary Section of this statement under the following titles: Standard Purch, Purch/Adv, Standard Adv, and various numbered Offers. The Account Summary section of this statement includes on the PURCHASES line subtotals for all purchase features, and on the ADVANCES line subtotals for all advance features, of the Previous Balance, new Purchases & Advances, Payments & Credits, FINANCE CHARGE and New Balance amounts.
- **PERIODIC RATES:** (D) and (F) indicate a daily periodic rate. (M) indicates a monthly periodic rate.



# “Shopping” for a Card

- Consider other credit products (*e.g.*, prepaid cards and secured credit cards)

- Evaluate whether a rewards card is worth any extra fees and costs



# Tips: Using Your Card

- Limit credit card use for essential purchases only (*i.e.*, **needs**, not **wants**)
- Keep track of where your cards are
  - If you hand a credit card to a merchant, try to keep it in view
- Try to pay the **entire** amount due each month by the due date

## Tips: Using Your Card (continued)

- Don't max out on your credit limit
  - Watch card balances to avoid overlimit fees
  - Keep your card balance below 30% of your limit
- Try to avoid cash advances



# Tips: Credit Card Debt

*Stop charging purchases!*

- Pay cash, write a check, or use a debit card
- Avoid store charge cards



## Tips: Credit Card Debt (continued)

- Calculate how long it will take to pay off credit cards.
  - Visit [Bankrate.com](http://Bankrate.com)
- Make a plan to pay debt and stick to your plan

## Tips: Credit Card Debt (continued)

- Pay more than just the minimum payment amount
- Ignore offers to skip payments
  - Interest continues to accrue on unpaid balance
- Pay higher-interest cards first, but don't miss any payments on **any** card

# Tips: Maintaining Your Card

- Monitor the interest rate section on your monthly statement

Rate Summary				
				Days This Billing Period: 031
	Balance Subject to Finance Charge	Periodic Rate	Nominal APR	ANNUAL PERCENTAGE RATE
PURCHASES				
Standard Purch	\$0.00	0.04586%(D)	16.740%	16.740%
ADVANCES				
Standard Adv	\$0.00	0.05956%(D)	21.740%	21.740%

# Tips: Credit Reports

80% of all credit reports contain mistakes!

- Check your credit reports regularly
  - Visit [AnnualCreditReport.com](https://AnnualCreditReport.com) for free copies
- Contact the credit-reporting agency to correct any inaccurate information or errors



# A Warning Sign of Credit Abuse

You pay credit card bills  
with other credit cards!

This is known as *credit kiting*.

# Some Web Resources

- [Smartmoney.com](http://Smartmoney.com)

Click on *Personal Finance > Debt Management*

- [Cardweb.com](http://Cardweb.com)
- [AnnualCreditReport.com](http://AnnualCreditReport.com)
- [MyFICO.com](http://MyFICO.com)
- [Bankrate.com](http://Bankrate.com)

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## DRAWN & QUARTERED

A WEEKLY ROUNDUP OF CARTOONS



